

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SWF-02 AID-20 CEA-02 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 CIEP-02 SP-03

STR-08 TRSE-00 LAB-06 SIL-01 SAM-01 OMB-01 SS-20

NSC-07 L-03 H-03 PA-04 PRS-01 USIA-15 XMB-07 OPIC-12

IO-14 DRC-01 AGR-20 /203 W  
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R 241829Z MAY 74

FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 0695  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY THE HAGUE  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 03 LONDON 06567

E.O. 11652: XGDS-1

TAGS: EGEN, EEC, UK

SUBJECT: EC RENEGOTIATION - THE EC BUDGET

BEGIN SUMMARY: THE EC BUDGET IS EMERGING AS THE MOST  
IMPORTANT AND DIFFICULT ISSUE IN EC RENEGOTIATION. THE  
UK MAINTAINS THAT IN 1980 ITS SHARE OF THE BUDGET WILL  
EXCEED 24 PER CENT, WHEREAS ITS SHARE OF COMMUNITY GNP  
WILL BE ONLY 14 PER CENT. THE PROBLEMS WHICH THE EC  
BUDGETARY ARRANGEMENTS CREATE FOR BRITAIN ARE MORE  
SERIOUS NOW THAN THEY WERE WHEN THE ACCESSION TREATY  
WAS SIGNED. THE UK IS NOT CHALLENGING THE COMMUNITY'S  
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PRESENT SYSTEM FOR RAISING REVENUE. IT BELIEVES THAT A

SOLUTION TO ITS PROBLEMS CAN BE WORKED OUT ON THE BASIS OF A DECISION OF THE EC COUNCIL, AND THAT NO TREATY AMENDMENTS WILL BE REQUIRED. THE BRITISH WANT THE COMMUNITY TO RECOGNIZE THAT AN INCIDENTAL, AND UNINTENDED EFFECT OF THE EC BUDGETARY MECHANISM IS TO CAUSE RESOURCES TO BE TRANSFERRED FROM POORER COUNTRIES TO RICHER ONES. THE SIMPLEST WAY TO DEAL WITH THIS PROBLEM, ACCORDING TO THE BRITISH, WOULD BE TO COMPENSATE THOSE WHO CONTRIBUTED TOO MUCH IN ANY GIVEN YEAR WITH DIRECT PAYMENTS FROM THE EC BUDGET IN THE FOLLOWING YEAR. AT THE JUNE 4 EC COUNCIL, FOREIGN SECRETARY CALLAGHAN IS EXPECTED TO DESCRIBE BRITAIN'S PROBLEMS WITH THE BUDGETARY SYSTEM IN SOME DETAIL. HE MAY, OR MAY NOT DISCUSS POSSIBLE SOLUTIONS. THE UK WANTS THE COUNCIL TO AGREE ON JUNE 4 TO ESTABLISH A PROCEDURE FOR FURTHER CONSIDERATION OF THE BUDGET PROBLEM IN THE COMMUNITY FRAMEWORK. LOOKING AHEAD, FCO OFFICIALS BELIEVE THAT THE OTHER MEMBER STATES MAY, AFTER A HARD NEGOTIATION, BE WILLING TO CONCEDE SOMETHING ON THIS ISSUE. IN RETURN, HOWEVER, THEY MAY WELL ASK BRITAIN FOR A CLEAR COMMITMENT TO

THE OVERALL AIMS OF THE COMMUNITY. SOME FCO OFFICIALS BELIEVE THAT IT WILL NOT BE EASY FOR THIS LABOUR GOVERNMENT TO MAKE A COMMITMENT OF THIS KIND. END SUMMARY

1. MICHAEL BUTLER (ASSISTANT UNDER SECRETARY, FCO), HAS COMPLETED HIS ROUND OF TALKS IN EC CAPITALS ON THE EC BUDGETARY ARRANGEMENTS AND THE PROBLEMS THEY POSE FOR THE UK. THE BUDGET ISSUE IS EMERGING AS THE MOST IMPORTANT AND DIFFICULT PART OF EC RENEGOTIATION. BUTLER WAS ACCOMPANIED ON HIS TOUR BY ALAN BAILEY (UNDER SECRETARY, HM TREASURY). THEY MET WITH OFFICIALS OF EVERY OTHER MEMBER STATE EXCEPT FRANCE, WHICH WAS OMITTED: (A) BECAUSE OF THE FRENCH PRESIDENTIAL ELECTION, AND (B) BECAUSE THE FRENCH INDICATED THAT THEY WOULD PREFER TO DISCUSS THE BUDGET ISSUE AT THIS STAGE IN A COMMUNITY SETTING, AND NOT IN BILATERAL CONVERSATIONS. BUTLER AND BAILEY GAVE EACH MEMBER STATE A PAPER CONTAINING A FACTUAL ASSESSMENT OF HOW THE PRESENT EC

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BUDGETARY ARRANGEMENTS WILL AFFECT THE UK IN 1980, AT THE END OF THE TRANSITION PERIOD. (A COPY OF THIS PAPER WAS GIVEN TO THE FRENCH EMBASSY IN LONDON.) THEY DISCUSSED IN A GENERAL WAY WHAT MIGHT BE DONE TO MAKE THE SYSTEM WORK MORE FAIRLY, BUT MADE NO SPECIFIC PROPOSALS'

2. ON THE BASIS OF BUTLER AND BAILEY'S CONVERSATIONS,

HMG IS NOW DRAFTING THE BUDGET SECTION OF THE SPEECH ON RENEGOTIATION THAT FOREIGN SECRETARY CALLAGHAN WILL MAKE TO THE EC COUNCIL ON JUNE 4. IT HAS NOT YET BEEN DECIDED WHETHER CALLAGHAN'S REMARKS WILL BE LIMITED TO A STATEMENT OF BRITAIN'S PROBLEMS WITH THE BUDGET OR WHETHER IT WILL TOUCH ON POSSIBLE SOLUTIONS. THE MAIN RESULT THAT UK WANTS FROM THE JUNE 4 MEETING IS THE ESTABLISHMENT OF SOME PROCEDURE FOR FURTHER CONSIDERATION OF THE BUDGET ISSUE IN THE COMMUNITY FRAMEWORK. FOR EXAMPLE, THE COMMISSION COULD BE ASKED TO STUDY THE PROBLEM AND PROPOSE APPROPRIATE SOLUTIONS.

3. THE FOLLOWING DESCRIPTION OF THE UK'S APPROACH TO

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NSC-07 L-03 H-03 PA-04 PRS-01 USIA-15 XMB-07 OPIC-12

IO-14 DRC-01 AGR-20 /203 W

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R 241829Z MAY 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0696

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME  
AMEMBASSY THE HAGUE  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS

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THE BUDGET ISSUE IS BASED LARGELY ON A CONVERSATION WITH A WORKING-LEVEL FCO OFFICIAL WHO ACCOMPANIED BUTLER AND BAILEY ON THEIR TRIP. HE GAVE US THIS INFORMATION ON A CONFIDENTIAL BASIS, AND IT SHOULD BE TREATED ACCORDINGLY.

4. THE BRITISH GOVERNMENT HAS ESTIMATED THAT IN 1980, AFTER THE TRANSITION PERIOD SET BY THE ACCESSION TREATY HAS ENDED AND THE "CORRECTIVES" IN ARTICLE 131 NO LONGER APPLY, THE UK'S GROSS CONTRIBUTION TO THE EC BUDGET WILL AMOUNT TO 24.3 PER CENT OF THE COMMUNITY'S TOTAL RECEIPTS. BRITAIN'S SHARE OF TOTAL  
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COMMUNITY GNP, ACCORDING TO BRITISH ESTIMATES, WILL BE 14 PER CENT. THE GOVERNMENT INSISTS THAT THESE ARE REALISTIC, MIDDLE-OF-THE-ROAD ESTIMATES, AND THAT THEY DO NOT REPRESENT A "WORSE CASE."

5. SIMILAR PERCENTAGES FOR THE OTHER MEMBER STATES WERE NOT INCLUDED IN THE PAPER WHICH BUTLER AND BAILEY GAVE TO THE OTHER MEMBER STATES, BUT THE UK HAS MADE ESTIMATES FOR ITS OWN INTERNAL PURPOSES' THESE SHOW THAT THE FRG'S SHARE OF THE BUDGET WILL BE ABOUT 31 PER CENT, WHICH WILL ALSO BE GERMANY'S SHARE OF THE GNP. FRENCH CONTRIBUTIONS WILL BE ABOUT 14 PER CENT, AND ITS SHARE OF GNP ABOUT 26 PER CENT.

6. THE UK HAS STRESSED GROSS, AND NOT NET CONTRIBUTIONS, BECAUSE IT BELIEVES THAT BARGAINING OVER NET CONTRIBUTIONS WOULD SMACK TOO MUCH OF "LUSTE RETOUR" AND WOULD NOT CONFORM TO THE SPIRIT OF THE COMMUNITY. THE UK HAS ESTIMATED, HOWEVER, THAT TOTAL CONTRIBUTIONS IN 1980 WOULD BE 1,320 MILLION UNITS OF ACCOUNT (1035 REPRESENTING CUSTOMS DUTIES, 250 AGRICULTURAL LEVIES, AND 35 A PORTION OF VAT). PAYMENTS TO THE UK WOULD BE 560 MILLION U.A., LEAVING A NET CONTRIBUTION OF 760 MILLION.

7. THE UK MAINTAINS THAT THE PROBLEMS WHICH THE EC BUDGETARY ARRANGEMENTS CREATE FOR BRITAIN ARE MORE SERIOUS NOW THAN THEY WERE WHEN THE ACCESSION TREATY WAS SIGNED. FIRST, ESTIMATES FOR BRITAIN'S SHARE OF

GNP IN 1980 HAVE DROPPED FROM 16 TO 14 PER CENT.  
SECOND, THE UK'S ESTIMATED GROSS CONTRIBUTION HAS  
INCREASED FROM ABOUT 20 TO 24 PER CENT. (THIS REFLECTS  
EXPECTED INCREASES IN CUSTOMS RECEIPTS, DUE TO WORLDWIDE  
INFLATION, AND LOWER AGRICULTURAL LEVIES BECAUSE OF HIGH  
WORLD FOOD PRICES.) THIRD, DURING THE ACCESSION  
NEGOTIATIONS, THE UK WAS LED TO BELIEVE THAT NEW  
COMMUNITY PROGRAMS, SUCH AS REGIONAL DEVELOPMENT FUND,  
OR COMMON INDUSTRIAL AND TECHNOLOGICAL POLICIES, WOULD  
MEAN MORE EC PAYMENTS TO THE UK. THE EXPERIENCE OF THE  
FIRST YEAR OF MEMBERSHIP HAS SHOWN THAT SUCH PROGRAMS  
ARE NOT LIKELY TO MATERIALIZE VERY QUICKLY, OR ON A  
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LARGE ENOUGH SCALE TO MAKE A DIFFERENCE.

8. IN DISCUSSING WAYS TO DEAL WITH BRITAIN'S PROBLEMS,  
THE GOVERNMENT IS STRESSING THAT IT IS NOT CHALLENGING  
THE COMMUNITY'S METHOD OF RAISING REVENUE -- THE  
"RESSOURCES PROPRES" SYSTEM THAT WAS WORKED OUT WITH  
SUCH GREAT DIFFICULTY IN 1970, BEFORE THE UK BECAME A  
MEMBER. THE UK BELIEVES THAT A SOLUTION CAN BE BASED  
ON A COUNCIL DECISION UNDER THE TERMS OF ARTICLE 235  
OF THE ROME TREATY, AND THAT IT WILL NOT BE NECESSARY  
TO RESORT TO THE MORE COMPLICATED PROCEDURES IN ARTICLE  
201 (WHICH WAS THE BASIS FOR THE 1970 DECISION) OR TO  
ARTICLE 236 (WHICH GOVERNS FORMAL TREATY AMENDMENTS).

9. THE FIRST THING TO BE DONE, ACCORDING TO THE BRITISH,  
IS TO RECOGNIZE THAT ONE OF THE INCIDENTAL EFFECTS OF  
THE COMMUNITY'S BUDGET MECHANISM IS TO CAUSE RESOURCES  
TO BE TRANSFERRED FROM ONE MEMBER STATE TO ANOTHER, AND  
IN SOME CASES THIS CAN MEAN PAYMENTS BY POORER COUNTRIES  
TO WEALTHIER ONES. PAYMENTS OF THIS KIND ARE: (A)  
UNFAIR, AND (B) INCONSISTENT WITH THE "ECONOMIC CON-  
VERGENCE" THAT IS ONE OF THE COMMUNITY'S OVERALL GOALS.

10. THE UK CONSIDERS THAT THE SIMPLEST WAY TO DEAL  
WITH THE PROBLEM IS TO ESTABLISH A STANDARD FOR DETER-  
MINING WHETHER A TRANSFER IS UNFAIR. FOR EXAMPLE,  
GROSS CONTRIBUTIONS TO THE EC BUDGET SHOULD BE ROUGHLY  
EQUAL TO A COUNTRY'S SHARE OF COMMUNITY GNP. OR,  
COUNTRIES WITH A BELOW AVERAGE PER CAPITA GNP SHOULD NOT  
HAVE TO MAKE WHAT AMOUNT TO PAYMENTS TO COUNTRIES  
THAT ARE ABOVE THE AVERAGE. A COUNTRY THAT IS CON-

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R 241829Z MAY 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0697

INFO AMEMBASSY BONN

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AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

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TRIBUTING "TOO MUCH" TO THE EC BUDGET, IN THE LIGHT OF  
A STANDARD OF THIS KIND, COULD RECEIVE COMPENSATION IN  
THE FORM OF DIRECT PAYMENTS BY THE COMMUNITY, WHICH  
COULD BE MADE IN THE YEAR FOLLOWING THE ONE IN WHICH THE  
EXCESS CONTRIBUTION WAS MADE.

11. DURING BUTLER AND BAILEY'S CONVERSATIONS, THE  
OTHER MEMBER STATES (NOT INCLUDING FRANCE) SHOWED SOME  
RELUCTANCE TO ACCEPT ALL THE ASSUMPTIONS UNDERLYING  
THE BRITISH PROJECTIONS FOR 1980. THEY AGREED TO STUDY  
THE PRDBLEM, HOWEVER' THEY ACCEPTED THE FACT THAT  
BRITAIN REGARDS THE BUDGET PROBLEM TO BE A SERIOUS ONE,  
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AND INDICATED (ACCORDING TO OUR SOURCE) THAT SOMETHING SHOULD BE DONE IF IT CAN BE CONCLUSIVELY DEMONSTRATED THAT THE BUDGETARY SYSTEM IS UNFAIR. FCO OFFICIALS BELIEVE THAT THE OTHER MEMBER STATES MAY, AFTER A HARD NEGOTIATION, BE WILLING TO GIVE SOMETHING TO HELP BRITAIN WITH ITS PROBLEMS WITH THE BUDGET. IN RETURN, HOWEVER, THEY COULD WELL ASK FOR A CLEAR BRITISH COMMITMENT TO THE OVERALL AIMS OF THE COMMUNITY. IT WILL NOT BE EASY, ACCORDING TO OUR SOURCES, FOR THIS LABOUR GOVERNMENT TO MAKE A COMMITMENT OF THIS KIND.

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## Message Attributes

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**Original Previous Classification:** n/a  
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**TAGS:** EGEN, UK, EEC  
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